High interest rates nix dealers' cut in expenses

WASHINGTON—Lumber and building materials dealers remain trapped in the "Catch 22" of borrowing only half as much for operational expenses this year as they procured in 1977, but paying twice as much in interest.

A recent statistical analysis compiled by the National Lumber & Building Materials Dealers Assn. shows that interest costs are but one of the many problems plaguing the 469 dealers surveyed. A full 24% of them will show no profit in 1981.

Interest paid per $1 million of sales has escalated 96.3%, from $7,508 to $15,324, over the last four years. According to the survey, this increase comes at a time when dealers have cut their financing by 50%.

However, over the same time period, dealers have maintained inventory levels at a fairly constant rate.

There has been a 5% inventory jump per $1 million of sales, from $172,246 to $175,928 between 1977 and 1981, and, more important, a 10.2% increase over 1980's $159,529. As the survey noted "optimism prevailed and, in hindsight, no one had any insight that [the] prime would escalate and stay at its present levels."

In addition, payroll costs have gone up slightly in anticipation of "better sales, continued inflation and company competition in the major market within various areas," according to the survey's text.

Over the last four years, total payroll dollars per $1 million of sales rose 4%, from $113,084 to $118,034. However, since 1980, payroll expenses jumped 10.6% from $106,707.

Consequently, profitability has been diluted by operational, inventory and other outlays. Pretax profit from operations per $1 million of sales plummeted 35.4% from last year to $30,741 in 1981.

There has been a decided shift in the product mixes of the dealers surveyed away from contractor sales and slightly more toward the consumer.

The customer mix as a percentage of sales showed contractor business sliding from 51% to 46% between 1978 and 1981. By the same token, the consumer portion of sales rose two percentage points, from 31% to 33%, over the same period.

A more pronounced consumer increase was visible in the Western States, according to a survey conducted by the Western Building Materials Assn., Olympia, Wash., which served as an addendum to the NLBMDA's analysis.

The 70 lumberyards participating in the WBMA's study reported that consumer sales composed 52% of their total volume this year, with contractor business dropping to 43%, and the rest coming from commercial sales.

The NLBMDA's survey goes on to give a rather detailed financial and operational break-

(Continued on page 49)

Work gloves, axes and wood-cutting accessories get a woody display on this endcap at Chase-Pitkin, Rochester, N.Y.
NHCN photo

Profile of NLBMDA members

	Survey total (in millions)	Mean (add 000)	Totals per Unit (add 000)
Cash Sales	445.5	1,122.2	439.4
Charge Sales	1,045.0	2,632.3	1,030.5
Total Sales	1,490.5	3,754.5	1,469.9
Gross Profit	395.8	997.0	390.4
Total Payroll	176.0	443.3	173.6
Interest	22.8	57.5	22.5
Advertising	11.3	28.5	11.2
Inventory Average	75.9	191.4	74.9

Source: NLBMDA's Business Management Committee survey of 397 member firms, operating 1,014 units. NHCN chart.

Private label plumbing program on tap at Stambaugh's 17 units

YOUNGSTOWN, Ohio—When Don Senne decided to install a private label plumbing program in all 17 Stambaugh-Thompson units, he was looking for more than just chain identification with a particular product category.

This month, Stambaugh's 450 sku's of carded plumbing will bear its logo and be supplied by a single vendor, Franklin Metal Products, Fort Washington, Pa. This is approximately 30% of a 1,700-sku department that does $3 million in retail sales chainwide.

However, while Senne, Stambaugh's general merchandise manager, said he was a "firm believer" in private label merchandising as a way of connecting the product to a store in the customer's mind, in plumbing he felt it was a different story.

"Once plumbing is out of the carton or the box," he explained, "the private label doesn't mean much and, product wise, there's little difference in what any manufacturer offers."

He made it clear that the conversion to private label plumbing had more to do with the overall program Franklin presented.

"In reviewing our product assortment, we found we weren't strong in visual presentation in plumbing, and the six vendors who supplied us were far too many," Senne said.

He expressed satisfaction over the marriage between the chain and new supplier, particularly in the amount of assistance Stambaugh's has received.

"We would have converted to Franklin's program even if it

(Continued on page 50)

Starts decline 1.7% in September

WASHINGTON—The effects of high interest rates on new home construction took their greatest toll on the North Central United States in September, according to latest Commerce Department figures, which showed September nationally to be the third worst housing month on record.

The rate of new home starts in the North Central Region plunged 25%, to 113,000 units, compared to August, based on the actual construction of 12,400 new homes. The rate was 60% below the 281,000-unit level posted in September 1980.

The sharp monthly drop in the region, combined with an 8% drop in the West, offset 16% and 5% gains in the Northeast and the South, respectively, bringing the national rate down by 1.7% to 918,000 units. The September total eclipsed the previous recession low, set in August, of 934,000 units, making September the third worst month on record since the Government began compiling housing statistics in 1959. The latest rate is surpassed only by the February 1975 recession low of 904,000 units, and the record low of 844,000 set in October 1966.

The rate of single-family home construction in September, meanwhile, bounced back slightly from August's record-setting low of 598,000 units, to 615,000 units. However, the Government reported the rate at which single-family home building permits were issued declined 9% in September, to 448,000 units, half of the previous September rate, of 884,000 units.

"It's not going to be any slight recession," warned Michael Sumichrast, chief economist for the National Assn. of Home Builders, referring to President Reagan's concession late last month that the economy was in the midst of "a slight, and I hope, short recession."

Pressure on the housing industry is taking on new proportions, however, as the rate of mortgage delinquency and foreclosures has risen markedly in the past three months to near 1974-75 levels.

The rate of delinquencies—payments more than 60 days past due—was up to 0.99% of mortgage loans outstanding in August, compared to 0.92% in July and 0.86% in June. In normal periods, the rate is usually between 0.6% and 0.7%. The rate peak in the 1974-75 recession was 1.06%, in February 1976.

September housing activity

Data for actual starts and permits;
Bold numbers in parentheses are seasonally adjusted annual rates

	STARTS			PERMITS		
	September Starts in 1,000's	% Change from August	% Change from September '80	September Permits in 1,000's	% Change from August	% Change from September '80
Northeast	11.7 (124)	+ 4.0 (+16.0)	−32.0 (−31.0)	9.1 (89)	−14.0 (−23.0)	−35.0 (−36.0)
North Central	12.4 (113)	−14.0 (−25.0)	−60.0 (−60.0)	11.1 (102)	+ 9.0 (− 6.0)	−58.0 (−58.0)
South	43.7 (486)	+ 4.0 (+ 5.0)	−27.0 (−27.0)	40.7 (434)	+12.0 (+ 1.0)	−40.0 (−41.0)
West	16.8 (195)	− 7.0 (− 8.0)	−46.0 (−45.0)	19.6 (219)	+ 7.0 (+ 3.0)	−45.0 (−45.0)
Total Housing	84.5 (918)	− 1.0 (− 2.0)	−39.0 (−38.0)	80.5 (844)	+ 7.0 (− 2.0)	−44.0 (−44.0)
Single Family	55.5 (615)	− 1.0 (+ 3.0)	−42.0 (−40.0)	40.9 (448)	− 8.0 (− 9.0)	−49.0 (−49.0)

Source: Department of Commerce; NHCN chart.

The rate of single-family home starts in September rose slightly from August's record low; the rate of permits, however, declined 9%. Home starts' sharpest decline was in the North Central States while permits fell hardest in the Northeast.

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Vol. 7, No. 23 November 9, 1981

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THE ASTONISHING STORY BEHIND THE GREAT KORVETTES CHAIN

MORE THAN THEY BARGAINED FOR: The Rise and Fall of Korvettes by Isadore Barmash

On Christmas Eve 1980, the lights went out forever in the few remaining stores of the once proud, pioneering 58-store Korvettes chain.
What happened? Lots of answers have been given. But here for the first time are the behind-the-scenes facts—a gripping story of conglomerates, mergers, big capital, and foreign takeovers.
This book is must reading for every retailer and entrepreneur who know that to understand the reasons for the success—and also the failure—of a giant like Korvettes is to understand American enterprise itself.
Isadore Barmash is Assistant Financial Editor and retailing specialist for *The New York Times*.

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Aggressive Yule tool promos

(Continued from page 3)
diately, and we've arranged to have selected products packaged in Christmas-type boxes, or as kits."

On the other hand, power tools will not be placed in any advertising, although they will be displayed prominently in the Ernst units. "We've seen a softening in power tool sales, and feel that ad money can be better spent on the hand tools that have more gift potential," said Herrin.

Several tool sku's will be promoted as "stocking stuffers" by in-store tags that will be on most of the items in Ernst's tool departments. Herrin added that, because the chain would be emphasizing the gift concept, savings of 20%-50% could be found on selected tool products.

He anticipated substantial sales volume from tools this Christmas and expected to clean out all the inventory the chain bought for the season. "ICE—Inventory Control Enforcement—is being stressed throughout the company because of the cost of borrowing money, and this will be even more important because of the added stock we've taken on for the holiday sales," he said.

Another chain looking to thin out its tool inventory by Jan. 1 is the six-unit Lumberjack Stores, Sacramento, Calif.

"We have a huge tool inventory of about $500,000, and fully expect to be very lean by year's end," said buyer Lyle Gregory.

Lumberjack also starts its Christmas tool promotion on Thanksgiving and will be running large ads every week up until the season ends.

It will also run a special Christmas catalog insert, featuring 50 power tools (out of 300 sku's) and 1,000 hand tools (out of 3,000 sku's).

"We put bows and garland around the tools we've featured in the catalog," Gregory said, "and we've designed endcaps suggesting these tools as gifts. Plus, we sell old-fashioned wooden boxes at cost, with the lumberjack logo on the side, for customers to place these tool gifts in."

Gregory insisted that price reductions were less important to Christmas tool sales than "getting the gift idea across to customers. That makes sales."

As dealers rev up their promotional campaigns, there are still more than a few who are saying "Bah, humbug."

"Customers are concerned with buying gifts at Christmas, and gifts do not equal home centers to most of them," said Bob Drumm, vp-merchandising for the six-unit Kindt chain.

Drumm said that Kindt has tried to sell all merchandise during the Yule season, but with little success. "With tools, we've tried 'buy one, get one free' sales, and we've tried giving Christmas trees away with any $75 purchase. It doesn't work."

He also noted that customers were simply ignoring the chain's Christmas advertising. "When you run a two-color, full page ad with a green Christmas tree running down the middle and still get no response, your customers are trying to tell you something."

He also noted that because Kindt has no trim-a-tree section, it was difficult to get the Christmas gift idea across.

The 35-unit Wolohan Lumber, Saginaw, Mich., has also stopped doing any seasonal promotions of tools, and instead will push bathrooms, vanities and other product lines the chain is strongest in.

"Tools are not one of our big categories," said director of merchandising Harold Erskine. "And it makes little sense for us to try and advertise them as gifts. No matter how festive a mood they're in, customers aren't interested in buying tools, or much else for that matter, from us at Christmas."

C.P.S.C. to survey impact of UF insulation ban

WASHINGTON—Consusumer Product Safety Commission regulators will launch a nationwide telephone survey over the next few weeks to measure the competitive impact of the agency's pending ban on ureaformaldehyde (U.F.) foam insulation.

The commission asked for public comments on the proposal last February, but after six months of sifting through industry and consumer reaction, C.P.S.C. officials said they need "more detailed information" on competitive implications from insulation contractors.

The phone poll will be limited to approximately 100 contractors who will be asked to provide specific information on "the number and type of installations, the revenues derived from these installations, the extent to which substitute insulation materials may be used, and the potential for firms no longer installing U.F. foam insulation to again enter the market."

The survey is consistent with President Reagan's request that Federal agencies reconsider pending major regulatory actions in terms of their economic costs as well as their potential benefits.

C.P.S.C. proposed outlawing the sale of U.F. foam insulation to curb what agency regulators called "the unreasonable risks of chronic and acute injury associated with the product because of the potential release of formaldehyde gas."

High interest rates nix cuts

(Continued from page 2)
down of the dealers questioned.

For instance, the 469 dealers operate 1,104 units, doing a mean store sales average of $1,469,952, with $439,363 in cash volume.

Of the dealers' total, only 30 companies are doing more than $10 million in sales, with the greatest amount—98—garnering between $500,000 to $1 million. The mean average years in business equaled 3.7, and the average dealer has 2.35 units

One hundred and thirty-eight dealers still employ the FIFO method of accounting, 104 use LIFO, 43 use the "Average" method, and 193 base inventory worth on Cost/Market.

It is also interesting to note that the mean percentage of types of sales shows that 76.14% still are on a credit basis, despite the high cost of "carrying" customers from any period of time. Only 1.67%, though, are from credit card sales, and 22.2% of business comes from cash and carry.

Another sign of hard economic times can be gleaned from the lack of expansion among dealers. Only 72 of the 469 companies have opened a new outlet over the last five years and only 220 have done any remodeling of older units during the same time period.

The mean percentage of a typical dealer's product mix reveals a high profile in lumber and building materials, although hardware and paint are playing a more important sales role. Lumber comprises 34.69% of sales, building materials 21.74%, millwork 12.44%, hardware 10.08%, and paint and sundries 5.59%. The remainder was divided among components, hard lines, floor and wall covering, appliances and farm equipment.

There are also some telling figures when mean averages between the total number of dealers surveyed and the top quartile (99 firms) are compared.

For instance, return on sales for the total was 2.06%, whereas for the top quartile (a majority of which are located in the mid-Atlantic States) the mean is 9.16%.

Asset turns between the two categories was pretty much equal (2.22 to 2.69), as was gross profit (a mean of 27.24% as compared with 28.19% for the top quartile).

But earnings as a percentage of total assets varied widely, with the mean for the total being 9.15%, whereas the top quartile's was 25.95%.

Sales per payroll dollar were slightly higher for the top quartile than the total, 10.45% to 8.68%, although inventory to current assets was lower, 48.76% to 52.51%.

Contest boosts Hill-Behan

(Continued from page 3)
claw hammer, a 25-ft. Lufkin steel tape, four carpenter's pencils and a "deluxe" simulated leather work apron.

"We didn't really know what [dollar] limit to put on the kit" originally, Behan said; the $150 mark was reached by concensus.

"We thought we'd be mobbed by customers just buying $150 or $160 worth of lumber," in order to qualify for the carpenter kits. Instead, "we're getting $250 and $300 sales," said a surprised Behan.

He noted that since full page ads first broke in the local papers Sept. 24, his 10 stores had already given 250 of the kits away. The ad, which featured treated lumber, fencing, siding, timbers and porch flooring, with the emphasis on outdoor projects, ran twice in New Orleans' major daily paper, *The Times-Picayune/The States-Item*, and in each of 14 community newspapers.

"We're definitely selling a lot of treated lumber," said Behan, who was unable to actually specify how much lumber had been sold.

"Although with the price of lumber today," he noted, "we have to sell a lot of lumber to make any money."

FUTURES

Two weeks ended Oct. 16, 1981

	High	Low	Close	Previous Week	Open* Interest	Contract High	Contract Low
LUMBER (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft.							
Nov.	148.50	133.00	133.30	143.70	1,870	239.60	130.60
Jan. '82	160.30	144.40	144.60	155.70	2,568	245.00	139.20
March	172.30	158.00	158.20	167.30	2,042	247.50	152.80
May	183.00	164.50	166.40	179.20	1,355	216.00	159.60
July	192.40	174.10	175.50	189.00	536	224.50	168.50
Sept.	197.20	184.00	183.00	194.00	287	229.50	175.80
Nov.	196.50	184.00	185.00	192.80	136	224.50	180.00
PLYWOOD (CBT)—76,032 sq. ft. ½-in. ext. 4/5-ply; $ per 1,000 sq. ft.							
Nov.	174.80	161.90	162.70	173.20	932	237.00	159.50
Nov.**	190.30	180.50	181.50	189.20	701	236.00	175.00
Jan. '82	180.10	168.00	168.20	177.60	1,065	232.00	165.00
Jan.**	198.00	187.50	188.70	196.50	528	244.00	183.00
March**	205.50	195.80	196.20	203.50	254	252.00	189.00
May**	212.60	202.70	203.00	211.00	200	241.00	196.00
July**	217.50	209.50	209.50	217.00	75	213.50	203.00

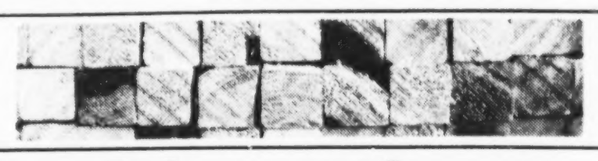
**Revised contract: western plywood

Total Volume (Through 10/15): 4,733 — Previous Two Weeks: 4,356
Total Open Interest (As of 10/14): 3,601 — Previous Week: 3,292
Cash Price: $174.44 — Previous Week: $175.42 — Year Ago: $209.72

COMMODITY RESEARCH BUREAU INDEX:	This Week	Previous Week	Year Ago
	269.7	272.0	325.9

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, Oct. 15.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

LUMBER REPORT



Bargain prices should continue

By Hawk Furman
Special to NHCN

The next three months should continue to bring exceptional bargain prices in lumber and panelboard products. Lumber is a free market commodity and price is primarily determined by the relationship of supply to demand. In the past 20 months, supply has exceeded demand and prices have fallen.

The price of western white spruce 2x4 random lengths standard and better in September 1979 was $266 per 1,000 board feet F.O.B. the mill. The price in September 1981 was $146 per 1,000 board feet. On a 70,000-board-feet carload of lumber, this represents a drop in value at the mill of $8,400 per carload.

What lies ahead . . . demand for housing has never been greater but affordability is the key. The National Assn. of Home Builders states that at a 12% mortgage rate, 7.9 million families can afford to buy a home in the United States, but at a 17% rate under 1.8 million families can qualify to purchase a house. Today's mortagage rates average 17%. Mortgage rates will not fall soon.

Paul Volker of the Federal Reserve Board says he will continue to keep the money supply tight. Washington has no intentions of bailing out housing. H.U.D. Secretary Samuel Pierce Jr., recently stated, "We don't have a particular program to stimulate the housing industry, and we do not intend to start one."

Hawk Furman is sales manager of Furman Lumber in Boston

Murray Weidenbaum, chairman of President Reagan's Council of Economic Advisors said no special effort to boost housing will be made by the Administration at present, but home building should improve as the President's economic plan for spurring the whole economy takes effect.

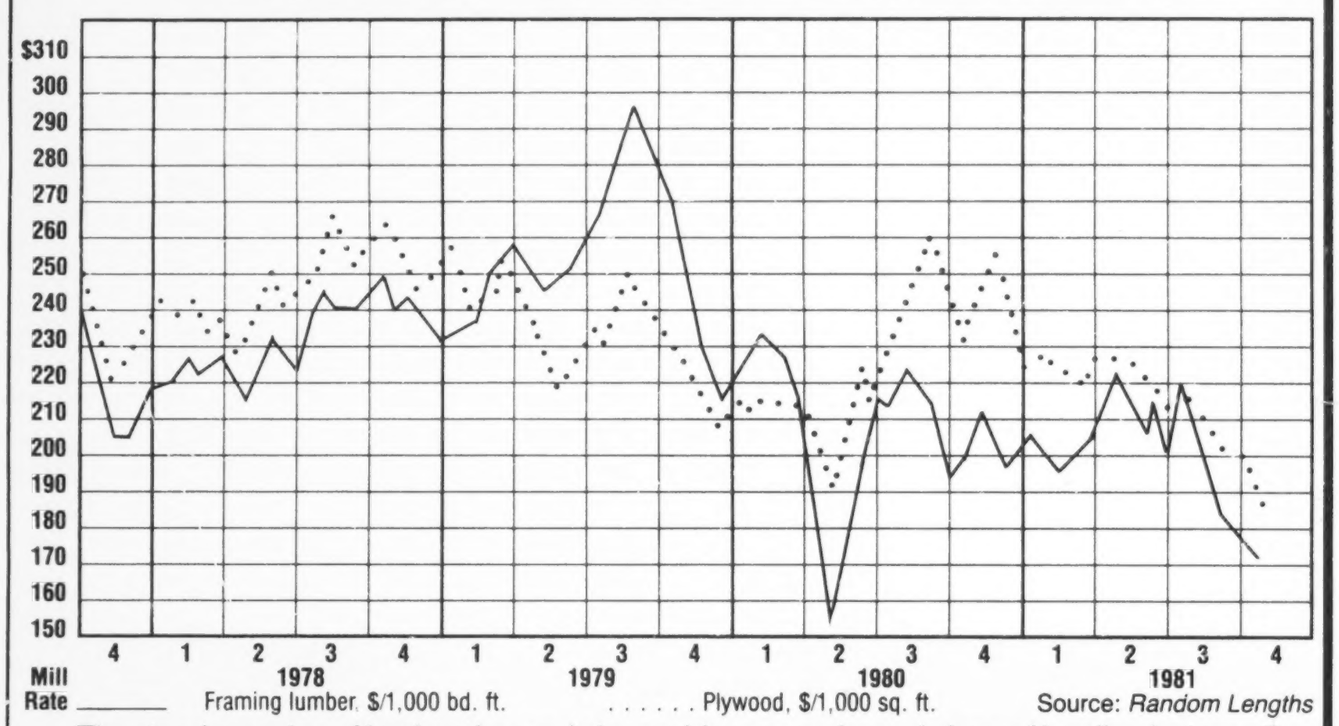
The primary mortgage lenders, the Savings and Loans, have been clobbered and are just starting to sort things out.

The "All Savers' Certificate" allowing tax-free interest of $2,000 on a joint return should help the banks get back on sound ground. The tax benefit expires after 1982 so the Savings and Loans will cautiously reinvest the funds from the "All Savers' Certificate." We will have to wait and see how much of these additional funds will filter down into home mortgages.

Lumber retailers are not too

(Continued on page 47)

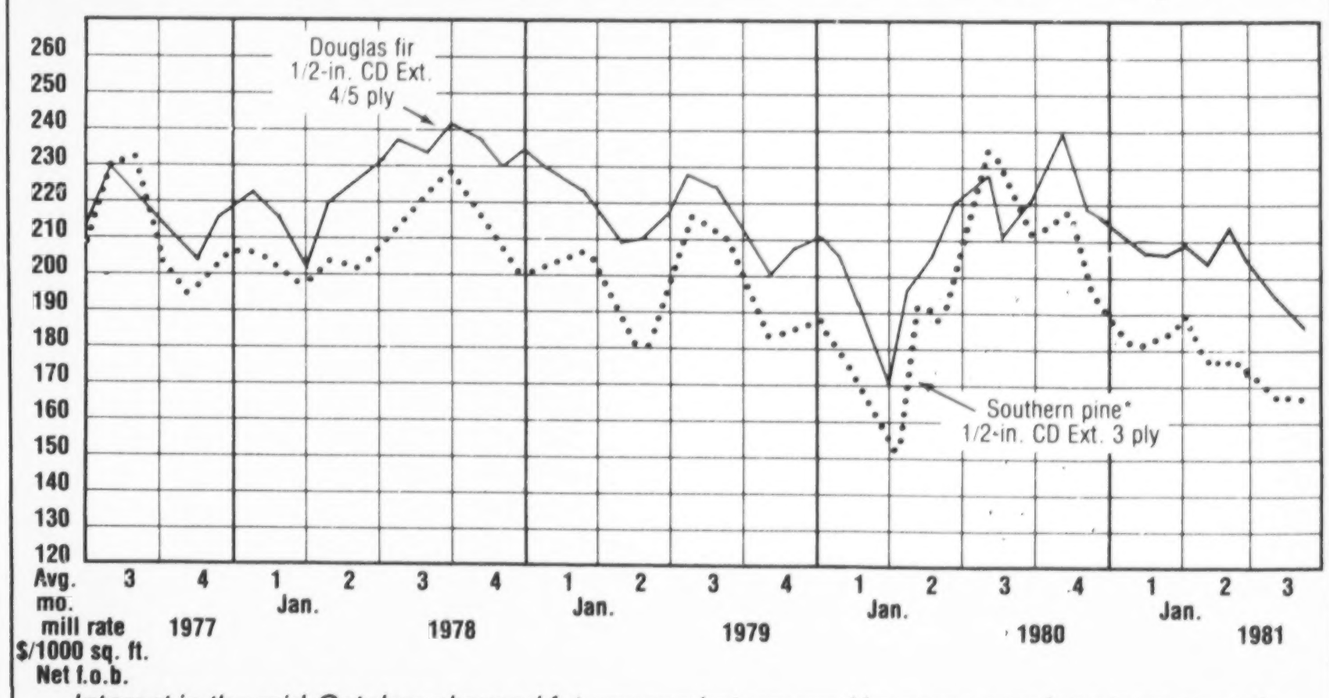
Composite lumber/plywood price profile



The steady erosion of lumber demand since midsummer showed signs of leveling last month. Current levels of demand, however, continue to squeeze even curtailed mills to post reluctant closure signs as prices reach critical break-even points. (Mill closures in the West jumped from 148 to 187 in the first two weeks of last month, with another 252 curtailed.)

Plywood prices, meanwhile, among wholesalers tended to be as competitive as direct mill shipments, spawning some fill-in action among the chains, but little firming of demand. Composite price levels, as of Oct. 16, settled to $172 for framing lumber, and $189 for plywood, based on Random Lengths weighted averages of nine key framing lumber, and seven key plywood items.

Commodity close-up: Western & Southern Plywood



Interest in the mid-October plywood futures market, spurred by some new long term speculation and a firming in other futures markets, helped solidify producers' asking prices for the first time in weeks, particularly for Western 4/5 CDX ½-in. October's average price for the commodity appeared headed for the $179 mark, based on preliminary figures from Random Lengths.

Southern 3-ply producers, meanwhile, managed to curtail production enough to meet spotty demand, but not without a steady increase in mill closures. Westside mills averaged a $167 price in September, with October's estimated average showing signs of slipping $2 to $5.

*Western Zone: Tex., La., Ark.

Source: Random Lengths

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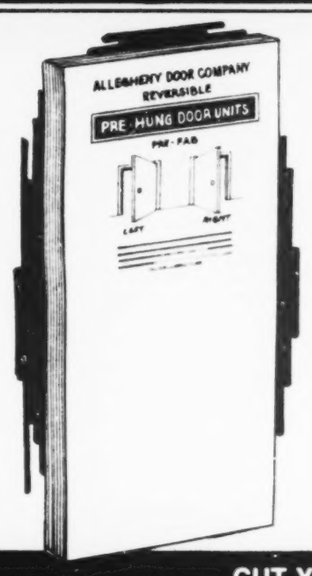

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The Hechinger unit in Harrisburg, Pa., was ready for the fall planting season with an ample supply of six different types of fertilizer. NHCN photo

Bargain prices will continue

(Continued from page 36)

optimistic. The Northeastern Retail Lumbermens Assn. took a survey of its members this summer. The projections for the next seven months by responding dealers are shown in Figure 1.

The outlook for increasing lumber demand in the next three months looks poor.

Supply will determine lumber pricing near term and the Canadian producers hold the key to balancing supply with demand. United States' mills have adjusted quickly to the lack of demand and have curtailed production.

Louisiana Pacific has closed 15 mills temporarily and nearly every major producer in Idaho and the Pacific Northwest and South has closed mills or curtailed production. Lumber production in Oregon is the lowest since 1945.

The Canadian producers have two major advantages over the United States manufacturers. They operate on flexible stumpage cost. The Government adjusts the cost of stumpage to reflect market conditions. They also have a favorable exchange rate. They sell most of their lumber to the United States for United States dollars which currently gives them 18% gain on foreign exchange.

The Canadian producers with a significant curtailment of production could put the supply position in better balance with demand and lumber prices would rise. Higher labor costs as a result of the recent woodworkers settlement in British Columbia may cause some cuts in production. Yet if history is repeated, the high lumber production in Canada will continue and lumber will remain at bargain prices in North America.

Figure 1

Dealer projections for the next seven months

	Home Building	Commercial/Industrial	Repairs/Improve
Very good	3%	12%	51%
Fair	33%	63%	44%
Poor	64%	25%	5%

Source: Northeastern Retail Lumbermens Assn.

Store operations and the bottom line

(Continued from page 46)

companywide basis, or in more manageable and meaningful breakdowns by region, district, type of store, or even by individual stores.

Let us assume that the variance report of 10 stores categorized as "urban-high volume" shows that nine of the stores are 15% below plan in the hardware department, but one store is 50% below plan. Merchandising would use this information to alter its plan for this aggregate of stores, but store operations could make use of that information to determine why that one store is so far below the others in the group. Store operations could try to find out why a single store, serving the same clientele in the same category is so out of line with its counterparts. Store operations could look into areas such as deliveries, mishandling of goods due to poor or insufficient help, theft, or poor display. Perhaps the poor performance can be explained by something as simple as emergency maintenance done in that area of the store, making goods inaccessible.

Whatever the reason, if store operations can determine it, then a remedy can be tried, or at least an explanation can be given. The key is that peer ranking will help promote corrective actions by the store management responsible for the store that is performing poorly.

Creating dialogue

We have tried to demonstrate how improved store performance can be initiated through the competition generated by peer ranking. By highlighting performance in terms of ranking, healthy dialogue may be spurred between store operations and merchandising. Store managers, for example, may now have documentation on which to challenge buying decisions that negatively affect performance in their stores. This dialogue can result in a more compatible blend of merchandising and store operations objectives, that ultimately can only help the company performance. In other words, store operations will have more involvement in planning.

Store operations and merchandising planning

In each of the reports mentioned thus far, there is a measurement of performance made against an expectation. These expectations come, for the most part, from the six-month merchandise plans which are created in a top-down manner. In this plan, beginning of the season dollar department objectives are established. Actual results are then measured against this plan to determine progress, and to make revisions where necessary.

While merchandising constructs these six-month plans with a close look at past performance and future trends, store operations can offer much helpful input, adding the bottom-up element to planning. Only the stores can interact directly with the customer and can measure his preferences on a store-by-store basis. Only store operations can provide the human, intangible insights that come from the day-to-day contact with the people on the floor.

Store operations management, therefore, can be and should be aligned closely with merchandising in the bottom-up planning, measurement and reaction phases of the organization.

Need for training

For store operations managers to read these reports intelligently, and to become involved in their creation, they must first be trained effectively. They must understand the measurement process and how they can react positively to indicators of poor performance. They must also be shown how they can influence performance in the planning stages.

Once this kind of reporting system is implemented, and store operations management becomes more involved in the total company mission, improvements in bottom line results cannot be far behind.

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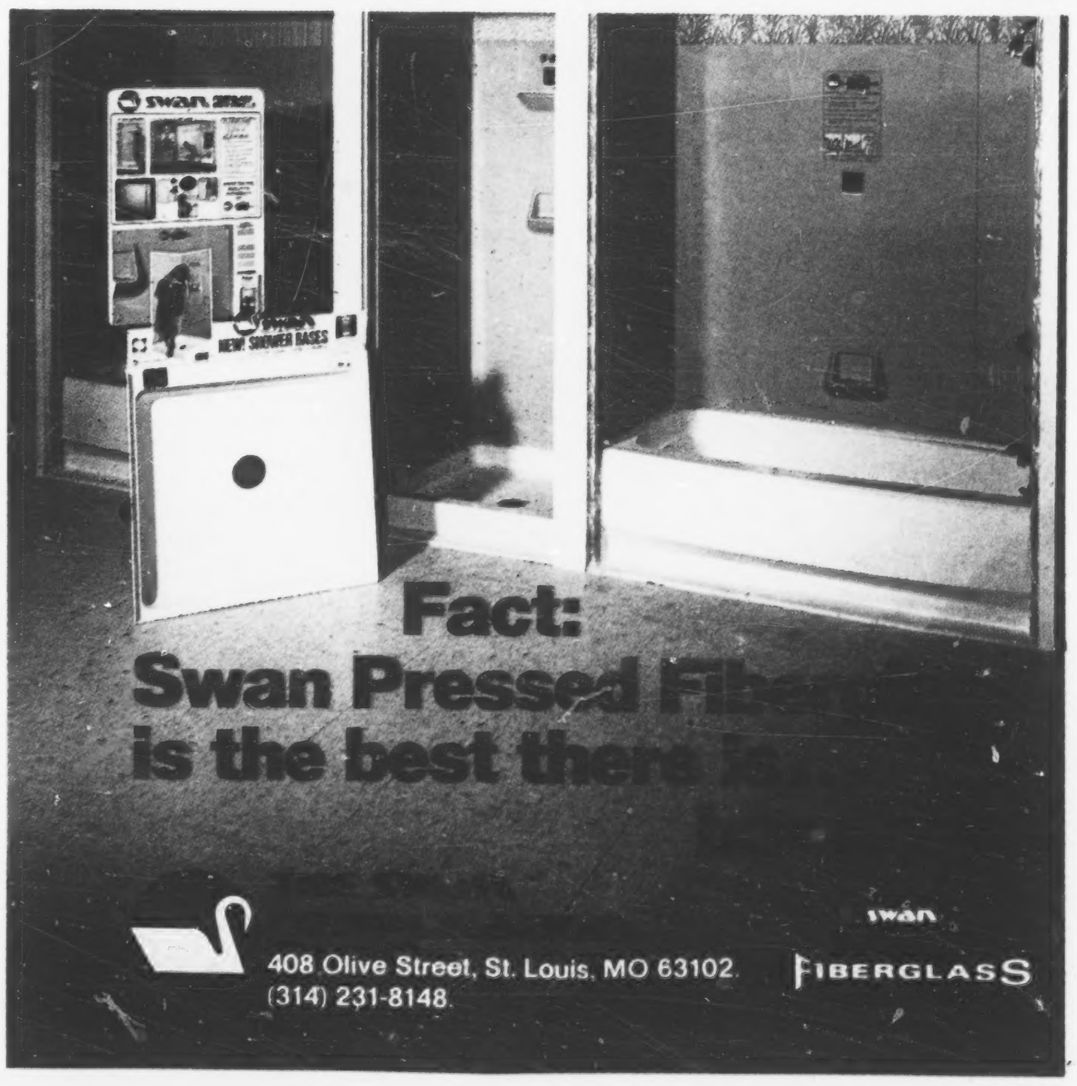

SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Boise Cascade	9/30-3rd qtr.	$781,480	$764,110	2	$18,470	$29,310	-37
Lowe's	9/26-4 wks.	70,300	72,100	-3	—	—	—
Scotty's	9/26-5 wks.	26,448	23,899	11	—	—	—
	9/26-1st qtr.	69,909	60,608	15	2,130	1,955	9

*$ in thousands

Boise net drops 37% in 3rd qtr.

BOISE, Idaho—Boise Cascade's building materials businesses, including its 96 retail stores, continued to suffer from a depressed housing industry in the third quarter and recorded a loss for the period as well as a modest loss for the first nine months of the year, company officials said.

Overall, the company saw net earnings fall 37% in the third quarter to $18,470,000 on a sales gain of 2% to $781,480,000 as compared to the same period last year. Figures for the building materials businesses were not disclosed.

Outlook uncertain

Boise Cascade's chairman and ceo John B. Fery called the outlook for the rest of the year and the early part of 1982 "uncertain at best" because of high interest rates which have stymied housing starts. He expects the building materials business to remain unimpressive while inflationary expectations keep interest rates high.

"The nation's current economic problems are having what we believe is a temporary impact on the forest products industry," Fery said. "While we are not optimistic about immediate improvement, we do expect to see significant progress in the economy sometime in 1982."

STOCK PRICES

Companies with predominant home center sales

	As of 10/7	As of 10/14
Lowe's (NYSE)	19	20
Payless Cashways (NYSE)	20	18¼
Scotty's (NYSE)	20⅞	19¾

Over-the-counter stocks

	As of 10/14 Bid	Asked
Erb Lumber	11¼	12
Hechinger	16¼	16½
The Home Depot	12⅝	13
Pay 'N Pak	13⅞	14⅛
Wolohan Lumber	3⅜	3¾

Companies with significant home center sales

	As of 10/7	As of 10/14
Action Industries (AMEX) [Action Home Centers]	3⅛	3⅜
American Maize Products (AMEX) [Lloyd Lumber, Lundy-Briggs]	8½	9
Boise Cascade (NYSE)	36⅛	31½
Cyclops (NYSE) [Busy Beaver]	30¼	29¾
Diamond Int'l (NYSE)	29¼	29¾
Edison Brothers (NYSE) [Handyman, Homer's]	27⅛	26¾
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]	20¾	21⅜
Forest City (AMEX)	13⅞	14½
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]	41⅜	40⅜
Interco (NYSE) [Central Hardware]	48½	48¼
Peavey (NYSE) [Fish, Peavey/Thunderbird]	22¾	24
Southwest Forest Industries (NYSE) [Dunlap's, Knox Lumber]	17⅛	16⅝
Supermarkets General (NYSE) [Rickel]	17½	18
Union Camp (NYSE) [Homecrafters]	48½	48
Wickes (NYSE) [Wickes Lumber, Builders Emporium]	12⅜	12¼

Over-the-counter stocks

	As of 10/14 Bid	Asked
Dart Drug	10¼	10½
Hines Lumber	18	19½
Pay 'n Save [Ernst, Von Tobel's Yard Birds]	22½	22¾
Sunset Industries [Handy Andy]	1⅝	2⅝

Home Depot's stock posts strong gains in 1st month

ATLANTA—The Home Depot has developed into an early star on an otherwise lackluster stock market.

In the first month since its issuance, the six-unit chain's stock grew steadily from an original offering price of $12 per share on Sept. 22 to a bid price of $13, asked at $13½ on Oct. 20. The following day, the stock jumped to a bid price of $15, asked at $15¼.

Good marketing of the stock and its limited float are prime reasons for its strong growth, according to Don Cornstein of broker Bear, Stearns.

"Part of the story is the very effective marketing message presented by the company," he said. "In comparison, it was also not a very large offering [600,000 shares] and the existing preferred stockholders used the proceeds from the redemption of their stock to buy about 150,000 to 200,000 shares of common.

"That left the public float at 400,000 to 450,000 shares. With strong institutional interest in the stock, it hasn't left that much float for the after-market demand."

The original offering of 600,000 shares, 400,000 from the company and 200,000 from stockholders, was a sellout and produced $4.1 million in net proceeds to the company after expenses. The company received only the proceeds from the shares it offered.

The chain plans to use the proceeds along with $3.5 million of long-term bank credit for its expansion into Miami/Fort Lauderdale where two of four proposed units debuted Labor Day weekend, redemption of preferred stock, leasehold improvements and furnishings at new corporate headquarters in Atlanta, and computer software (*NHCN*, Sept. 14).

Third-qtr. sales rise 15% for Florida power Scotty's

NEW YORK—Scotty's board chairman James W. Sweet told Wall Street analysts that the Winter Haven, Fla., chain is in the dominant position in the Florida building supply market, with 84 stores.

Sweet told the group Scotty's is "sitting right in the middle of Florida's population boom." The state's population increased 41% between 1970 and 1981 to 9,600,000.

Harold W. Taylor, senior vice president and chief financial officer, told the group sales for the third quarter ended Sept. 26 were $69,908,831, a 15% increase over third quarter 1980 sales of $60,607,773.

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Kitchen/bath roundup . . . pp. 19-21

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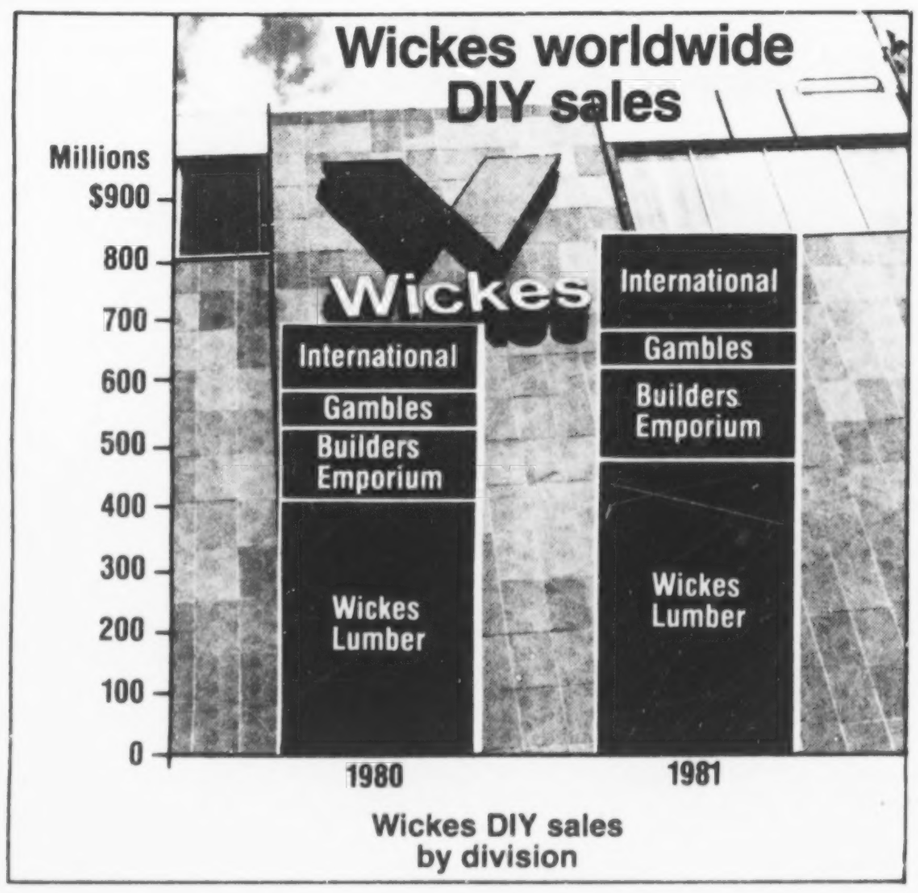

Dutch deal is dead; Grace, Dreesmann terminate talks

NEW YORK—The deal is off.

W. R. Grace and Vroom & Dreesmann B. V. have mutually agreed to terminate negotiations on acquisition of Grace's retail operations, which included $810 million worth of home center sales.

Considered one of the more spectacular acquisition efforts in the home center industry when the agreement in principle was announced last February, Grace and Netherlands retail giant Dreesmann apparently found there "were a number of things" which pulled the two parties apart.

Grace and Dreesmann officials won't say what led to the demise of negotiations, but a Grace spokesman made it clear the company was "not looking" for another partner to invest in its 467 retail units, which include home centers, jewelry stores, western wear and sporting goods outlets.

A Dreesmann official, however, did say the $4 billion Netherlands retailer was "still interested" in seeking United States acquisitions.

The original agreement chairman J. Peter Grace and vice chairman Charles Erhart made with Anton C. R. Dreesmann, chief of Vroom & Dreesmann, was a five-year buy-out of 50% of Grace's retail group (*NHCN*, March 2), excluding its Diana women's shops.

The deal was to net Grace at least a cool $250 million, which was to be pumped back into its fast-growing energy business.

Dreesmann or Grace would also have the option to purchase a crucial, additional 1% of the

(Continued on page 30)

Overseas sales put Wickes in top DIY spot worldwide

SAN DIEGO—With W. R. Grace holding the No. 1 spot in United States DIY retailing, Wickes Cos., the $4 billion corporation, is the No. 1 home center retailer in the world, according to *NHCN* estimates.

With international sales of some $150 million, the Wickes home center group is expected to reach sales of $810 million this year, up 12% from the approximately $725 million in worldwide DIY sales in 1980.

Wickes Lumber, the 278-store division, is expected to contribute $463 million to the total, according to adjusted figures (*NHCN*, Oct. 26), while 62-unit Builders Emporium will contribute $182 million. Wickes' 10 Gamble Home Centers will contribute approximately $15 million and its 70 store international division will have sales close to $150 million.

Although Wickes Cos. has additional hardware sales through its Howard Bros. and franchised Gamble stores, its strictly home center sales of $810 put it at the top of the field. Grace's home center group is expected to have total sales of $769 million this year.

According to revised figures, Wickes United States DIY retailing group will bring in $660 million, putting them ahead of No. 2 Evans Products with retail DIY sales of $614 million.

Last year, Wickes' lumber division contributed sales of $418 million.

Ex-franchisees plot strategy

PMI puts emphasis on fashion

ROCHESTER, Minn.—PMI, the company formed Sept. 1 from 44 Plywood Minnesota franchise stores, is taking steps to establish an image as a fashion-oriented chain.

New buying practices have led to an increase in high-end merchandise for PMI stores as well as lower costs to the retailers on some items.

A Minneapolis advertising agency is expected to have a name for the neophyte company by next spring. Plywood Minnesota is seen as misleading.

"People think we're lumber-related and we're not," said PMI president George Scheer. "It makes it more difficult to sell fashion-related items. Most of our stores don't even carry plywood."

Prior to PMI's formation, some store operators had been dissatisfied with Plywood Minnesota's pace in adding expensive, decorator merchandise. There is a feeling now among franchisees that the desired changes are happening.

"Scheer is constantly calling and asking for ideas," said Bob Jerger, part owner and manager of the Eau Claire, Wis., store. "Everyone's involved. Before we felt like pawns."

Merchandise changes are most apparent in window treat-

(Continued on page 30)

NEWSBREAKS

AFFILIATED PRESIDENT RESIGNS. E. G. "Al" Sickman has resigned as president of 22-unit Affiliated Home Centers, Kansas City, Mo. Sickman will remain in the home center industry, where he is "exploring opportunities." No replacement has been named.

SALES TICKER. . . . Scotty's sales for the four weeks ended Oct. 24 were $22.8 million, up 9% over last October. . . . Erb Lumber's third-quarter sales increased 3% to $33.4 million, net income decreased 19% to $744,000. Income has decreased 45% at Erb in the first nine months. . . . Edward Hines lost $1.6 million in the third quarter on sales of $70 million, which equaled last year's figures.

Exclusive NHCN interview

Brand brings business savvy to H.U.D. post

W. Calvert Brand was recently appointed Deputy Assistant Secretary for Policy and Budget in the Department of Housing and Urban Development. Prior to his appointment, he was president of Brands Inc., a building materials and lumber firm he founded in Columbus, Ind. Active in both the state and national programs of the building materials industry, he is a former president and chairman of the board of the National Lumber and Building Material Dealers Assn.

The following interview was conducted by John Friedman, Washington correspondent for National Home Center News.

NHCN: What are your main duties in your new job?

Brand: They include development of the budget for housing—one part of H.U.D. Also I have a major responsibility for developing policy. We respond to legislative proposals. We provide information to the public and evaluate programs. Economic analysis is another area of responsibility.

NHCN: Why did you decide to join the Government?

Brand: This may sound a little self-serving, but I agreed to join H.U.D. because I feel I meet the standards President Reagan has set for the kinds of people he wants to get involved in Government: somebody who knows the field and is not looking for a job.

I'm making a financial sacrifice to be here. I am also making some personal sacrifices. But I'm here because I believe if we are going to accomplish the objectives of the Reagan Administration, which I think are sound, people are going to have to make some sacrifices.

NHCN: Our readers are, of course, concerned about the housing industry. What is your prediction?

Brand: I can't predict what is going to happen but I can talk about some of the things we are concerned about and are trying to do something about.

I think the most important thing that must happen is we must see a real acceptance and commitment to the President's economic program. It took 25 years of bad management of the economic side of Government to get us to the point of extremely high inflation and extremely high interest rates. Unfortunately, the housing industry gets impacted more severely than any other industry in the country by high interest rates.

To correct that we must have the Government and the private sector work toward getting Federal spending under control, and getting the intrusion of Government into business under control.

NHCN: What specifically are you doing at H.U.D. to help the housing industry?

Brand: There are a number of things that we are doing that because of the timing I simply can't talk to you about. We are under an administrative em-

(Continued on page 4)

'The key is to give us some time to get the money back into the hands of the people through the tax cut.'
W. Calvert Brand, Deputy Assistant Secretary for Policy and Budget, H.U.D.

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Mfrs., dealers join forces to attract fall energy biz

TOLEDO, Ohio—Home centers are employing creative promotional techniques to reach that "second wave" of customers who put off buying energy-saving products until the fall.

Joint advertising promotions with manufacturers of insulation, weatherstripping, caulking, storm windows and related items include NFL football game pennants, energy-saving product centers and DIY clinics.

Owens-Corning Fiberglas, based here, was approached by the people at Somerville Lumber, Somerville, Mass., and sold on the idea of producing and distributing 20,000 New England Patriots pennants at a nationally televised football game Sept. 21, in support of a four-week "Energy Savings Spectacular" sale.

One side of the pennant read "New England Patriots/Instructions: Wave After Every Patriot Score" and the other side read "Don't Miss The Big Somerville/Owens Corning Energy Savings Spectacular Going on Now Thru Oct. 10th."

"I didn't attend the game," commented Mel Cohen, co-owner of Somerville Lumber, "but I sure did see thousands of pennants being waved on television!"

Somerville ran a full-page ad six times in the two principal Boston newspapers to promote the sale, which began Sept. 14. The first ad appeared in the Home and Garden section of the *Boston Globe* (circ. 740,000) on Sept. 13 and was repeated in the *Globe* sports section on Sept. 17.

On Sept. 20 the same ad in tab size ran in the *Sunday Boston Herald* (circ. 350,000) sports section and was repeated in the *Herald's* edition of Sept. 25. The tab sized ad ran again in the Sept. 27 *Globe* Home and Garden section and finally in the Oct. 1 *Globe* sports section.

Ad copy read in part: "Somerville and Owens-Corning Join Together to Bring You This Great Energy Savings Spectacular." The ad mentioned Somerville's DIY clinics on how to insulate and to save energy and invited readers to meet an Owens-Corning representative and talk with certified insulation experts.

The four-week sale resulted in the biggest volume week in the store's history, according to co-owner Harold Cohen, with

(Continued on page 30)

Chase-Pitkin, Rochester, N.Y., puts the Pink Panther on display in a main aisle of its store.

FTC's Miller: We'll relax ad substantiation efforts

WASHINGTON—Declaring "there's no free lunch," James Miller 3rd, the new chairman of the Federal Trade Commission described the direction his agency will take in the next few years in remarks to the press and Congressional committees.

Miller explained plans to move away from FTC enforcement of ad substantiation. Such efforts, he noted, add to business costs that are passed on to consumers.

He suggested that the FTC hurts consumers when it tries to restrict the sale of shoddy or unreliable products.

In the transition team report that he prepared for the new administration, Miller noted that "imperfect products" should be available because "consumers have different preferences for risk avoidance," and "those who have a low aversion to risk—relative to money—will be most likely to purchase cheap, unreliable products." Although the FTC will not pursue ad substantiation enforcement, it will enforce laws against fraudulent and deceptive ads.

Miller also said that the commission, under his direction, will not be as concerned with resale price maintenance and other distributional restraints, such as exclusive territories. He added that distributional restraints often improve competition.

The only time such restraints concern him, he said, is when they lead to horizontal price fixing.

He pointed out that he had "doubts about certain vertical activities the commission has been engaged in in the past. . . ."

Discussing Government policy toward industrial mergers, Miller described three types of mergers: horizontal, involving direct competitors; conglomerate, involving firms with dissimilar interests, and vertical, involving firms with a buyer-seller relationship.

Horizontal mergers, he said

(Continued on page 6)

Personnel, ads seen vital

Chains fear tool rental role

NATIONAL REPORT—Worries about maintenance and liability continue to keep home centers from cashing in on the healthy tool rental business.

Despite a down economy, the rental industry grew by 18.4% last year, according to the American Rental Assn., Moline, Ill.

With few exceptions, such as Inner Harbor Lumber and Hardware, Baltimore, tool rentals in home centers are done on a small scale and as a customer service rather than a profit maker. Some chains even loan tools.

"On first impression a rental department seems like a fantastic way to pick up more revenue," said Bill Staford, merchandising manager at Ole's, Pasadena, Calif., the 14th ranked home center chain in DIY business. "But then you weigh other factors like the space, inventory, maintenance and liability involved."

Inner Harbor has rented tools for three years, since the firm's inception. Manager Bob Heffner agrees there are problems in operating a rental department but argues that it is profitable.

"The key is good personnel," he said.

Inner Harbor has an employee whose main responsibility is tool rental and maintenance.

"You've got to have the space, advertise the department and maintain it," Heffner said. "We're not afraid to give the service."

Inner Harbor is located near the Baltimore waterfront in an area of great inner-city home renovation. The tool business originated with the sale of caustic solution for cleaning building exteriors. The procedure requires high-pressure water blasters.

Blasters are still carried along with about 50 other tools, from floor sanders that rent for $30 per day to small hand tools that may carry a daily fee of $3 compared with a purchase price of $5 to $10. A customer may choose to rent rather than buy a low-priced tool because he would probably use it only once, Heffner said.

"You make your money on your less expensive items," he said.

Markups on tie-in sales are

(Continued on page 6)

The tool rental department at Inner Harbor Lumber and Hardware, Baltimore, has proven successful. Less expensive items, often carried in inventory anyway, are most profitable. NHCN photos

PGL 1-day show generates $3M

AUBURN, Wash.—Although sales and attendance were down somewhat from last year, the ninth annual Palmer G. Lewis Buying Show's Wild West stampede theme provided a strong buying forum for the 1,300 attendees of the one-day fall event.

"We predict sales of over $3 million by the time back orders are filled and final orders are written," said Richard E. Lundgren, PGL president.

To play up the Western theme, suppliers wore cowboy boots, hats and Levis. A top display was an 1895 desert coach once owned by an uncle of PGL founder Palmer G. Lewis. Horses and burros were in evidence among the straw in the 150,000-sq.-ft. warehouse. A Western-style barbecue added to the festivities.

"We try hard to make it a fun show, not just row after row of 8-ft. x 10-ft. booths with suppliers eager to leap on retailers," said Charles D. Lauber, vice president and PGL promotion manager.

The 130-page Buy Show Catalog offered savings on over 70 product lines.

The PGL advertising and promotion booth offered a tabloid promotion service, including a ready-made free tabloid in exchange for purchases.

Over 70 prizes were won by booth customers and buyers, with the grand prize of $1,000 and 25 shares of PGL stock going to Lacey Builders Supply of Lacey, Wash. Former Miss America Mary Ann Mobley and television personality Gary Collins appeared at the show, sponsored by Gold Bond Building Products.

The PGL 1981 Buying Show featured over 70 product booths and a Wild West stampede theme. It was held in the company's 150,000-sq.-ft. warehouse in Auburn, Wash.

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